



HUMAN RIGHTS

Nomura Asset Management's Initiatives on Human Rights

With the support of 99% of its shareholders, at its annual general meeting of shareholders in June 2020, French food giant Danone became the first publicly-traded company to adopt the “Entreprise à Mission” (mission-fulfilling company) model. This is a new legal framework established by France in 2019, and a new company model under which a company bears the responsibility to achieve a purpose other than profits. Danone has included four new objectives in its articles of incorporation: 1) Improve health through products; 2) Preserve the planet's resources; 3) Entrust Danone's people to create new futures; and 4) Foster inclusive growth. Going forward, Danone's Board of Directors will be responsible for progress on these objectives. The Board of Directors will be overseen by a 10-person Mission Committee comprising outside experts and

employee representatives. If the objectives are not being achieved, the Mission Committee will encourage improvements.

As symbolized by this action by Danone, companies are now being asked to act responsibly in addition to pursuing profits. Amid the growing impact on society by corporate activities in the process of economic development, a wide range of ESG issues are materializing, and the importance of companies playing a responsible role is becoming better recognized. Among many ESG issues, one that has received particular attention along with climate change is human rights. As companies' business activities expand globally, the global supply chains that companies are a part of are also expanding. A large number of people are involved in these long, enormous supply chains, and as a result many different kinds of human rights problems arise on a daily basis. However, companies face difficulties to monitor such issues in these supply chains because they are so massive.

The issue of human rights has been a global topic of discussion for a number of years, and during this time many principles and guidelines have been developed. In 1976, the Organisation for Economic Co-operation and

“I even have had to pay them money at the end of the month instead of getting money”. These are the words of Batsa, a 25 year-old Nepalese worker in an electronics factory in Malaysia. For 18 months, he had approximately half of his monthly salary (approximately US\$1,800) taken from his paycheck, with the reason given that the money was needed to obtain a new work permit.

— From Know the Chain
(2020 ICT Benchmark Overview; June 2020)



Development (OECD) issued the OECD Guidelines for Multinational Enterprises, a set of recommendations for multinational enterprises of adhering countries reflecting the expectation to companies on how to voluntarily act responsibly. The following year, in 1977, the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy was established by the International Labour Organization (ILO). This document provides direct guidance to enterprises on social policy and inclusive, responsible and sustainable workplace practices.

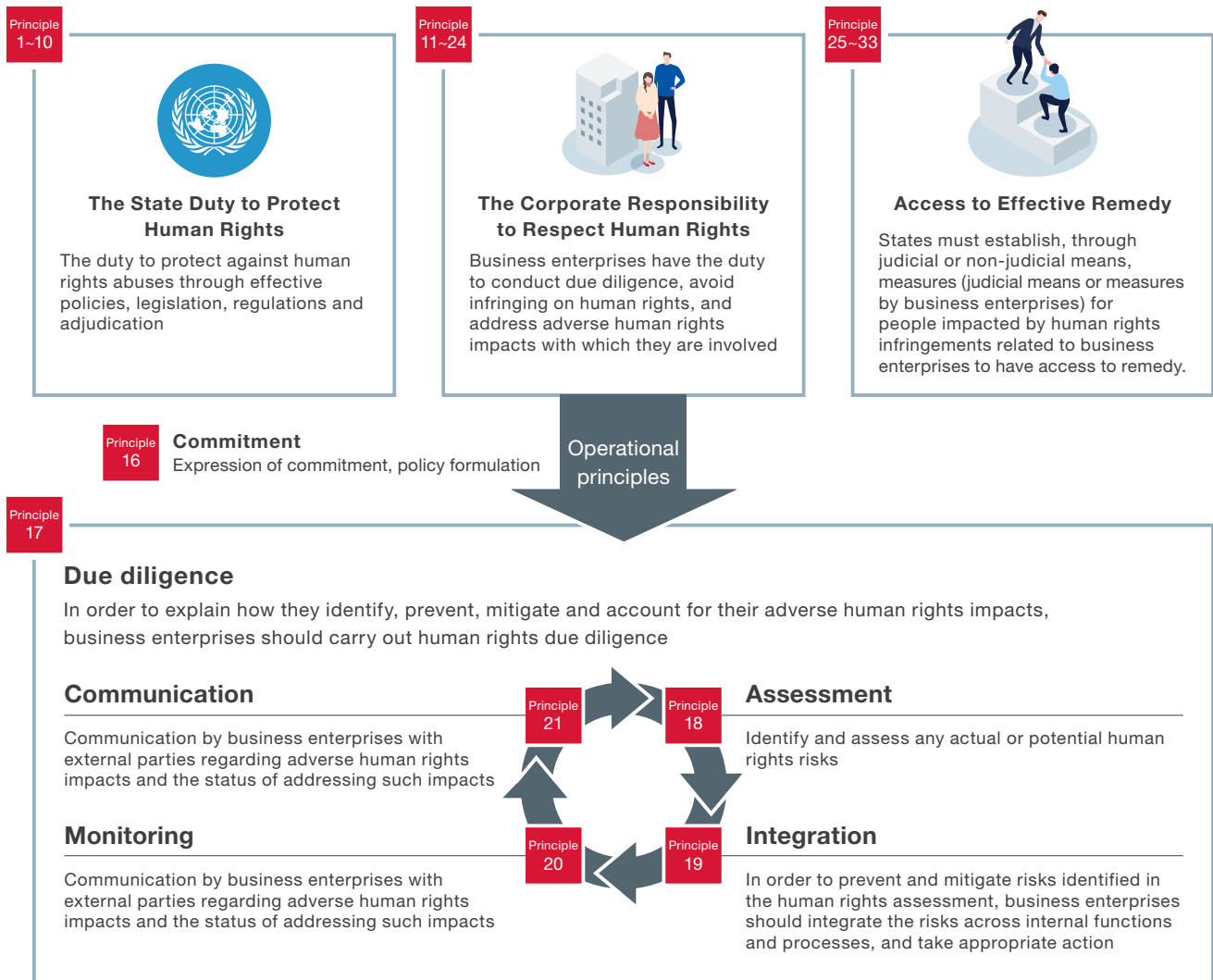
In 1999, the UN Global Compact was advocated as a voluntary initiative for companies and other organizations to act as good citizens of society and realize sustainable growth. The Global Compact comprises 10 principles in four areas that businesses are asked to put into practice. Of these, six principles and two areas are related to human rights and labor rights. Subsequently, in 2011, the UN Human Rights Council endorsed the “Guiding Principles on Business and

Human Rights” proposed by Harvard University Professor John Ruggie (the “Ruggie Principles”). These Principles comprise three main pillars for the relationship between companies and human rights: the duty of states to protect against human rights abuses by third parties, including business enterprises; the corporate responsibility to respect human rights; and the need for greater access by victims to effective remedy. The Ruggie Principles make clear the “obligations of states” and the “responsibilities of companies” concerning the impact of corporate activities on human rights, and also stress the importance of mechanisms for victims to access effective relief, and lay out specific fields and examples of fulfilling each obligation or responsibility by each actor. Based on the Ruggie Principles, states and companies are currently bolstering their initiatives related to human rights. For example, in October 2020 the Japanese government formulated the “National Action Plan on Business and Human Rights (2020-2025).”

Key Basic Principles and Guidelines on Human Rights

OECD Guidelines for Multinational Enterprises (1976)	<ul style="list-style-type: none"> Guidelines for multinational enterprises in OECD-adhering countries that provide voluntary principles and standards for responsible business conduct
International Labour Organization (ILO) Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977)	<ul style="list-style-type: none"> A document about corporate activities established to provide direct guidance to enterprises on social policy and inclusive, responsible and sustainable workplace practices.
UN Global Compact (1999)	<ul style="list-style-type: none"> Advocated as a voluntary initiative for companies and other organizations to act as good citizens of society and realize sustainable growth Of the 10 principles across four areas that businesses are asked to put into practice, two areas (six principles) are related to human rights and labor rights
Guiding Principles on Business and Human Rights: Implementation of the UN “Protect, Respect and Remedy” framework (2011)	<ul style="list-style-type: none"> In 2005, the 69th session of the UN Human Rights Committee appointed Harvard University’s Kennedy School of Government professor John Ruggie as the UN Secretary-General’s Special Representative on Human Rights and Transnational Corporations. In 2008, he submitted the “Protect, Respect and Remedy” framework to the 8th session of the UN Human Rights Council This framework comprises three core pillars: 1) the State duty to protect against human rights abuses by third parties, including business enterprises; 2) the corporate responsibility to respect human rights; and 3) access to remedies In 2011, the Guiding Principles were formulated and unanimously endorsed at the 17th session of the UN Human Rights Council

Guiding Principles on Business and Human Rights (3 Pillars / 33 Principles)



Source: Prepared by Nomura Asset Management using various sources of information

The Movement to Make Human Rights Due Diligence Mandatory

In response to growing awareness of human rights, the movement to introduce legal frameworks, primarily in Western countries, requiring companies to respect human rights including in their supply chains, is gaining traction. This movement is especially strong in Europe, and countries are enacting laws that mandate human rights due diligence. Such laws have already been introduced and put into force in France and the Netherlands, while legislative bills have been drafted in countries including Norway, Switzerland, and Germany (as of December 2020). At the EU level as well, preparations are underway to introduce uniform legislation mandating due diligence, and a draft report was published in September 2020. This draft legislation would apply to all businesses, regardless of size, that are headquartered or engage in business activities in the EU, and covers a very broad range of ESG-related issues, including: 1) Human rights risks, understood as being those defined in the International Bill of

Human Rights, the UN Conventions protecting vulnerable persons, the Core ILO Conventions, and other ILO treaties; 2) Environmental risks (including climate change, natural resources and biodiversity); and 3) Governance risks (including the OECD's Anti-Corruption Guidelines). The main due diligence requirements are shown on the table at the bottom of the next page. The requirements include expressing how the due diligence strategy relates to business strategy. In other words, the EU has been formulating this draft legislation based on the understanding that human rights are inseparably linked to corporate value.

Nomura Asset Management positions human rights, along with climate change, as an important ESG issue that impacts corporate value. As such, along with engaging portfolio companies on human rights issues based on our monitoring of investment portfolios, we proactively integrate such human rights risk information into our investment research.

Status of Legislative Frameworks in European Countries

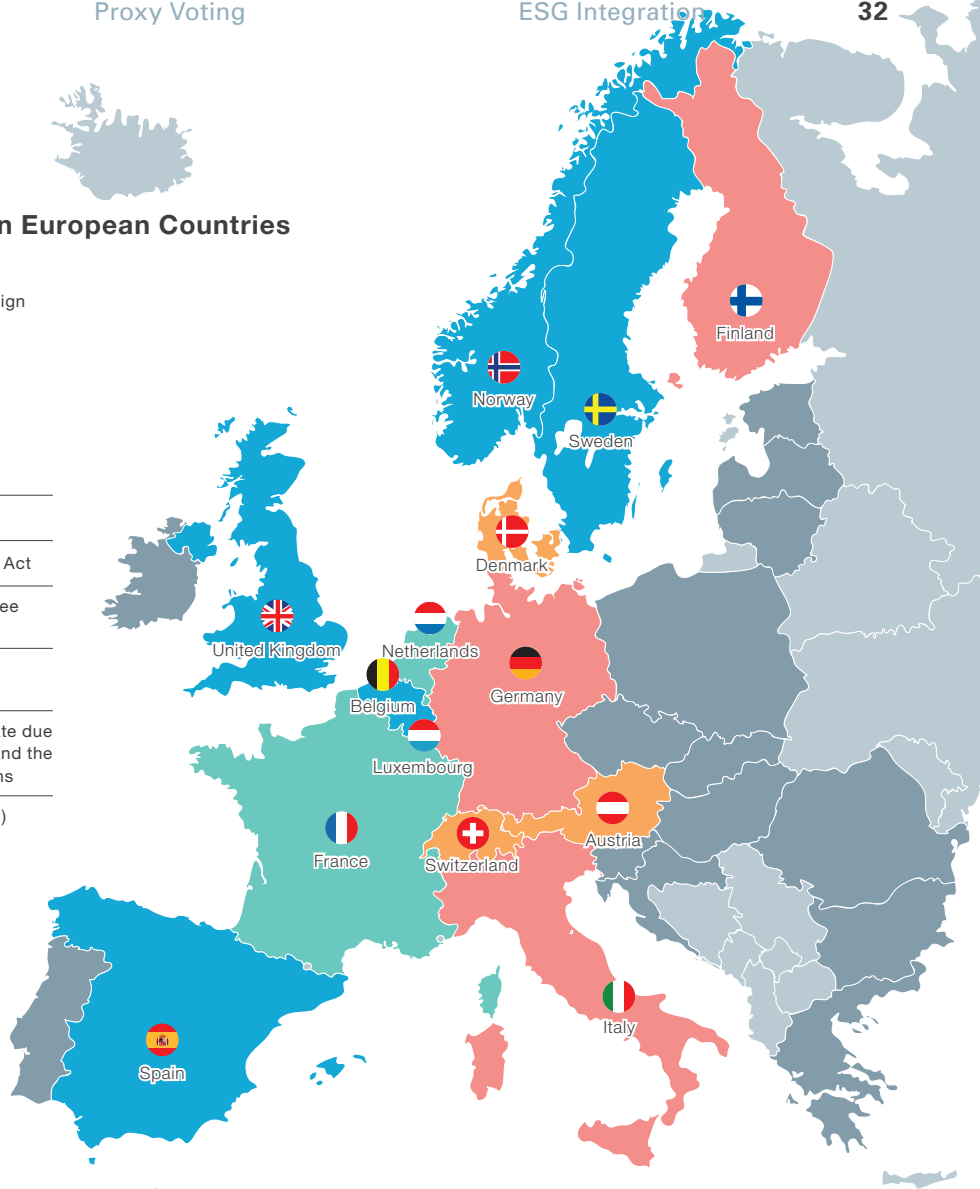
(as of May 2020)

- Policy statements / Public discussions / CSOs* campaign
 - Government's commitment
 - Legislative process / motion
 - Adopted law
- *CSO...Civil Society Organization

Specific Examples of Legislation

Enacted	France	Duty of Vigilance Law
	Netherlands	Child Labour Due Diligence Act
Drafting of legislation	Norway	Ethics Information Committee draft act
	Switzerland	Draft legislation mandating human rights due diligence
	Germany	Draft legislation for corporate due diligence on human rights and the environment in supply chains

Source : European Coalition for Corporate Justice (ECCJ)



Key content of the EU's draft legislation mandating due diligence ("Draft Report") (September 2020)

Companies covered	Companies headquartered in the EU and companies not headquartered in the EU but which engage in business activities in the EU
Items covered by the law	<ul style="list-style-type: none"> ■ Human rights defined in the International Bill of Human Rights, the UN Conventions protecting vulnerable persons, the Core ILO Conventions, and other ILO treaties ■ Environmental risks (including climate change, natural resources and biodiversity) ■ Governance risk (including the OECD Anti-Corruption Guidelines)
Main Due Diligence Requirements	<ul style="list-style-type: none"> ■ Continuous due diligence in the entire direct and indirect value chain accompanying a company's business activities ■ Disclosure of statement on the implementation of risk assessments (if risks are not identified) ■ Conduct due diligence, stop, prevent, or mitigate risks, information disclosure (if risks are identified) ■ Engage in consultations with stakeholders and labor unions regarding effective and appropriate due diligence strategy (minimum of once per year) ■ Set up grievance mechanisms ■ Disclosure regarding how the due diligence strategy relates to the business strategy, the details of codes of conduct and policy agreements with business partners, and status of periodic audits of suppliers

Future Schedule

2021 1H	European Commission submits official legislative proposal
2021 2H - 2023	Once the European Commission has submitted its legislative proposal, it will be considered and voted on by the EU Parliament and the European Council. If the directive is adopted, EU member states will be required to incorporate the law into their own national laws.

Source : Prepared by Nomura Asset Management using various sources of information



Nomura Asset Management's Human Rights Monitoring Process

Nomura Asset Management broadly and continuously monitors the human rights risks of companies in our investment universe, as we seek to reduce the risk of human rights infringements at the investment portfolio level. Managing human rights risk is not a factor that results in the generation of cash flows over the short term. However, if human rights problems materialize, not only in a portfolio company, but also in the supply chain connected to that company, the company will be subject to a higher reputation risk, such as a worsening of the company's image in society, and the company may have to pay a large cost (cost and time to restore its reputation) to resolve its human rights issues. In addition, if the problem cannot be solved over a prolonged period of time, the adverse impact on the company's corporate value itself will grow.

In order to avoid unexpected costs related to human rights issues and fulfill our social responsibilities as an asset management firm, we research the efforts of companies in our investment universe with respect to human rights, including if they have formulated programs to address human rights and the implementation status of such programs, as well as research any possible misconduct and the details of such misconduct if it exists. Our research centers on items related to human rights respect and compliance as set forth in international norms related to human rights, such as the OECD Guidelines for Multinational Enterprises and the

Ruggie Principles. The basic survey is conducted once a year by our ESG specialists and company analysts using information voluntarily disclosed by companies, NGOs that monitor human rights, and media reports as sources of information. The survey covers items including the disclosure of the status of becoming a signatory and endorsing the international norms supported by Nomura Asset Management, the disclosure of policies for respecting human rights, the establishment of systems to manage human rights violations and the level of progress of such systems (auditing, grievance systems, self-assessment, etc.), and the status of occurrence of human rights-related misconduct.

In addition, for companies in industries that we define as having particular human rights risks, we check whether the company is carrying out human rights monitoring, including for parts suppliers of the company. It is important for a company to check whether there are any human rights violation risks across the entire supply chain, such as in the manufacturing process of raw materials and procured parts, in addition to the company's own manufacturing process. This is because if human rights violation risks are neglected in these sectors and problems arise, business opportunities may be lost, such as an increase in the reputation risk of final products and difficulty in procuring parts, and this will have a significant impact on corporate value.

Sector	Foods	ICT	Automobiles	Apparel	Mining	Trading companies
Industries Focused With Human Rights Risks	Agricultural products (Especially palm oil, cocoa, fruits, tobacco)	Electronic equipment components	Automobile parts Tires	Textiles (cotton and wool) Garment	Precious metals Non-precious metals	All related items noted to the left

Human Rights Risk Management at the Portfolio Level

ESG investment manager examines human rights risks (the survey items mentioned in the human rights monitoring process) at the portfolio level throughout the year, based on the human rights risk monitoring data for each stock researched annually. We share our understanding of issues through continuous engagement with companies that are aware of human rights issues in their business activities and are actively working to address them. For these companies, we carry out engagement while continuing to hold the company as an investment target. In addition, we treat companies that have newly experienced serious human rights-related misconduct or for which improvement in human rights risk management is insufficient as human rights high-risk companies, and manage them as important engagement target companies. Engagement for the purpose of human rights risk management is carried out as a collaborative effort by portfolio managers, ESG specialists, company analysts and ESG investment manager.

However, for companies that are considered human

rights high-risk companies but continue to work on solving problems, we will monitor the progress of their efforts through periodic engagement. Also, after a certain period of engagement, those companies for which we can expect improvement will be unflagged as human rights high-risk companies, and will be subject to normal monitoring.

In corporate business for which human rights risk assessment has become the norm, we believe that companies that have established strong processes for human rights risk management will see a reduction in human rights risk not only in business with existing customers, but also in business with new corporate customers, and we also believe that this will result in more positive evaluations of the products and services the company offers and an increase in business opportunities.

Our holding a large number of companies with excellent human rights track records in our portfolios not only helps us avoid risk, but also leads to opportunities for higher returns.



- Check the status of compliance with international norms
- Human rights-related policies (child labor, forced labor, wages, safety, etc.)
- Human rights risk management systems (monitoring, relief systems, self-assessment, etc.)
- Investigations of misconduct related to human rights violations
- Status of compliance with human rights monitoring policies of client company of company being researched

- Formulation of human rights policies/ programs
- Introduction of human rights monitoring
- Implementation and disclosure of self-assessment
- Actions aimed at improvement

- Buy
- Sell
- Continuous hold

Example of Engagement

